

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Robert G. Taub, Vice Chairman; and
Mark Acton

Competitive Products Price Changes
Rates of General Applicability

Docket No. CP2014-5

ORDER APPROVING CHANGES IN RATES OF GENERAL APPLICABILITY
FOR COMPETITIVE PRODUCTS

(Issued December 12, 2013)

I. INTRODUCTION

The Postal Service proposes changes in rates of general applicability for certain competitive products and related classification changes. The changes are scheduled to become effective January 26, 2014. Subject to the discussion below, the Commission approves the planned rate changes and will reflect applicable classification changes in the Mail Classification Schedule (MCS).

II. BACKGROUND

A. The Postal Service's Notice

On November 13, 2013, the Postal Service filed notice with the Commission concerning changes in rates of general applicability for competitive products.¹ The Postal Service represents that, as required by 39 C.F.R. § 3015.2, the Notice includes an explanation and justification for the changes, the effective date, and a schedule of the changed rates. *Id.* at 1. The Notice also includes related mail classification changes.

Attached to the Notice is the Governors' Decision evaluating the new prices and classification changes in accordance with 39 U.S.C. §§ 3632-33 and 39 C.F.R. § 3015.7.² The Governors' Decision provides an analysis of the competitive products' price and classification changes intended to demonstrate that the changes comply with 39 U.S.C. § 3633(a) and 39 C.F.R. part 3015.

The attachment to the Governors' Decision sets forth the price changes and includes draft MCS language for competitive products of general applicability. The proposed price and classification changes are summarized below.

Priority Mail Express. Overall, Priority Mail Express prices increase by 3.0 percent.³ The existing structure of the pricing categories for zoned Retail, Commercial Base, and Commercial Plus does not change. A new Zone 9 is added for mailings to and from Micronesia, the Marshall Islands, and Palau. In addition, a new 10:30 a.m.

¹ Notice of the United States Postal Service of Changes in Rates of General Applicability for Competitive Products Established in Governors' Decision No. 13-2, November 13, 2013 (Notice). Pursuant to 39 U.S.C. § 3632(b)(2), the Postal Service must publish the Governors' Decision and record of proceedings in the *Federal Register* at least 30 days before the effective date of the new rates or classes.

² Decision of the Governors of the United States Postal Service on Changes in Rates and Classes of General Applicability for Competitive Products, October 22, 2013 (Governors' Decision No. 13-2).

³ In Docket No. MC2013-45, the Commission approved the Postal Service's request to change the name of Express Mail to Priority Mail Express. See Docket No. MC2013-45, Order No. 1713, Order Approving Minor Classification Change, May 13, 2013.

delivery time option is available for \$5.00. On average, Retail prices increase by 3.1 percent, Commercial Base prices increase by 2.9 percent, and prices for Commercial Plus increase by 0.6 percent.⁴ A fee of 20 cents per piece is assessed on commercial parcels that lack an Intelligent Mail package barcode (IMpb).

Priority Mail. The Retail price decreases and the Commercial price increases combine to produce a 0.0 percent overall change in Priority Mail prices. The existing structure of the pricing categories for Retail, Commercial Base, and Commercial Plus does not change. A new Zone 9 is added for mailings to and from Micronesia, the Marshall Islands, and Palau. On average, Retail prices decrease by 0.01 percent, Commercial Base prices increase by 0.01 percent, and Commercial Plus prices increase by 0.0 percent.⁵ A fee of 20 cents per piece is assessed on commercial parcels that lack an IMpb.

Parcel Select. Parcel Select Service prices increase, on average, by 9.2 percent.⁶ For destination entry parcels, the average price increases 8.0 percent for dropshipping at a destination delivery unit, 5.6 percent for parcels entered at a destination sectional center facility (SCF), and 5.1 percent for parcels entered at a destination network distribution center (NDC). For non-destination entered parcels, the

⁴ Commercial Base prices are available to customers using an authorized postage payment method. Commercial Plus prices are available to customers using an authorized postage payment method and shipping over 5,000 pieces annually. See draft MCS 2105.4, <http://www.prc.gov/prc-pages/library/mail-classification-schedule/default.aspx?view=mail> (last updated December 5, 2013).

⁵ Commercial Base prices are available to customers using an authorized postage payment method. Commercial Plus prices are available to customers using an authorized postage payment method and whose annual volumes exceed 50,000 pieces or 600 open and distributed containers for parcels, or 5,000 letter-size parcels, excluding the Padded Flat Rate Envelopes. Commercial Plus Cubic prices are available to customers using an authorized postage payment method and shipping over 50,000 pieces annually. The 50,000 piece volume requirements for Commercial Plus and Commercial Plus Cubic are reductions from the prior volume requirements of 75,000 and 150,000 pieces, respectively. See Notice, MCS Attachment at 2110.4, at 16.

⁶ Governors' Decision 13-2 erroneously states the overall increase for Parcel Select is 5.9 percent. In Response to CHIR No.2, question 2, the Postal Service explains that the 5.9 percent average increase applies to non-lightweight Parcel Select price categories. Responses of the United States Postal Service to Chairman's Information Request No. 2, November 26, 2013, question 2 (Response to CHIR No. 2).

average price increase is 5.9 percent. Prices for Lightweight Parcel Select increase by 10.1 percent. A fee of 20 cents per piece is assessed on commercial parcels that lack an IMpb. All nonpresort mailings must meet a volume requirement of 50 pieces or 50 pounds per mailing.⁷

Parcel Return Service. Parcel Return Service prices increase, on average, by 3.0 percent. The price for returned parcels retrieved from a return NDC or a return SCF have a 0.0 percent overall increase, while prices for parcels retrieved from a return delivery unit increase by 5.7 percent. A fee of 20 cents per piece is assessed on commercial parcels that lack an IMpb.

First-Class Package Service. First-Class Package Service prices increase, on average, by 5.0 percent, with no structural changes. The fee for commercial parcels that lack an IMpb is increased to 20 cents, and the surcharge for Commercial Base irregular shape parcels is also increased to 20 cents.

Standard Post. Standard Post prices increase by an average of 5.2 percent. Prices in Zones 1-4 are aligned with the Retail Priority Mail prices for those zones. Customers shipping to Zones 1-4 receive Priority Mail service. Zone 1-4 pieces default to Standard Post service only if the item contains hazardous material or is otherwise not permitted to travel by air transportation. A fee of 20 cents per piece is assessed on commercial parcels that lack an IMpb.

Domestic Extra Services. Premium Forwarding Service will include a commercial option in addition to the residential option. Residential customers now have the option to enroll online or at the retail counter, while commercial customers may only enroll online. The enrollment fee for Premium Forwarding Service increases to \$16.00 for online enrollment and \$17.00 for retail counter enrollment. The weekly reshipment fee for residential customers remains \$17.00.

⁷ Responses of the United States Postal Service to Chairman's Information Request No. 1, November 22, 2013, question 3 (Response to CHIR No. 1).

Competitive Ancillary Services consist of two services – Adult Signature and Package Intercept Service. Prices for Adult Signature service increase to \$5.20 for the basic service and \$5.45 for Adult Signature Restricted Delivery. Package Intercept Service prices increase by 5.0 percent.

Address Enhancement Services prices increase between 3.6 and 7.7 percent. Competitive Post Office Box Service prices increase by 3.5 percent on average. The Pickup On-Demand fee is unchanged in 2014.

Expedited services—Global Express Guaranteed (GXG) and Priority Mail Express International (PMEI). GXG prices increase by 3.0 percent overall. PMEI prices increase by 1.3 percent overall.⁸

The existing structure of GXG Retail, Commercial Base, and Commercial Plus price categories remains the same, except for a revision concerning payment methods for GXG Commercial Base. *Id.* This revision replaces MCS language specifying several payment methods with a general reference to “USPS-approved payment methods.”

The existing structure of PMEI Flat Rate, Retail, Commercial Base, and Commercial Plus price categories also remains the same, except for the establishment of PMEI Flat Rate Commercial Base and PMEI Flat Rate Commercial Plus rate categories; a revision concerning approved payment methods for PMEI Commercial Base (comparable to the revision for GXG); and an increase in the maximum weight for Country Price Group 2 (Mexico) to 70 pounds.⁹

Priority Mail International (PMI). PMI prices increase by 1.1 percent overall. The existing price structure of PMI Flat Rate, Retail, Commercial Base, and Commercial Plus remains the same, except for the establishment of PMI Flat Rate Commercial Base

⁸ In Docket No. MC2013-45, the Commission approved the Postal Service’s request to change the name of Express Mail International to PMEI. See Docket No. MC2013-45, Order No. 1713, Order Approving Minor Classification Change, May 13, 2013.

⁹ The existing maximum weights are 44 pounds for commercial customers and 66 pounds for retail customers. See draft MCS 2305.6 (Commercial and Retail tables), <http://www.prc.gov/prc-pages/library/mail-classification-schedule/default.aspx?view=mail> (last updated December 5, 2013).

and PMI Flat Rate Commercial Plus rates and availability of Electronic USPS Delivery Confirmation International. Other classification changes include a revision concerning payment methods for PMI Commercial Base (comparable to the revisions for GXG and PMEI); an increase in the maximum weight for Country Price Group 2 (Mexico) to 70 pounds;¹⁰ elimination of content restrictions to permit personal correspondence in PMI parcels (consistent with a Universal Postal Union change); and replacement of specified minimum size limits with a general requirement that PMI parcels must be large enough to accommodate postage, address, and other required elements on the address side.

International Priority Airmail (IPA) and International Surface Air Lift (ISAL). IPA prices decrease by 2.4 percent overall.¹¹ ISAL prices decrease by 2.9 percent overall. Classification changes include revising the IPA and ISAL price structures by expanding the number of Country Price Groups from 15 to 19 and establishing rate categories based upon the following three mail shapes: (1) letters and postcards; (2) large envelopes (flats); and (3) packages (small packets and rolls). Other changes include reducing the minimum weight of Direct Country containers from 5 to 2 or more pounds; reducing the maximum weight for IPA and ISAL large envelopes (flats) from 4.0 pounds to 17.6 ounces; and increasing the maximum weight for IPA and ISAL packages (small packets and rolls) from 4.0 pounds to 4.4 pounds.

International Direct Sacks-Airmail M-Bags (Airmail M-Bags). Airmail M-Bag prices increase by 2.9 percent overall. Classification changes include revising the name of the product by adding "Airmail" before "M-Bags" and calculating postage on total weight (contents and weight of the bag) instead of net weight.

¹⁰ See *supra* n.9 for existing weight limits.

¹¹ Responses of the United States Postal Service to Chairman's Information Request No. 3, December 3, 2013, question 5 (Response to CHIR No. 3).

*First-Class Package International Service (FCPIS).*¹² FCPIS prices increase by 0.8 percent overall. FCPIS Commercial Base and FCPIS Commercial Plus prices remain the same. The existing FCPIS Retail, Commercial Base, and Commercial Plus structures remain the same, except for revisions concerning approved payment methods and the availability of Pickup On-Demand service.

International Special Services. Prices for the services within International Ancillary Services increase overall by 0.7 percent.¹³ International Certificates of Mailing prices increase by 9.7 percent overall. International Registered Mail prices increase by 5.4 percent. International Return Receipt prices increase by 7.1 percent. The Customs Clearance and Delivery Fee increases by 9.1 percent.

For the International Money Transfer Service-Outbound product, prices for International Postal Money Orders are unchanged, and the maximum amount for Vendor Assisted Electronic Money Transfer services decreases from \$2,000.00 to \$1,500.00.

The Notice also includes three additional attachments: (1) a redacted table that shows FY 2014 projected volumes, revenues, attributable costs, contribution, and cost coverage for each product, assuming implementation of new prices on January 26, 2014; (2) a redacted table that shows FY 2014 projected volumes, revenues, attributable costs, contribution, and cost coverage for each product, assuming a hypothetical implementation date of October 1, 2013;

¹² In Docket No. MC2012-44, the Commission approved a Postal Service request to transfer First-Class Mail International Packages and Rolls from the market dominant product list to the competitive product list and, among other changes, to rename the newly-transferred product "Outbound Single-Piece First-Class Package International Service (FCPIS)." See Docket No. MC2012-44, Order No. 1461, Order Approving Request for Product List Transfer, September 10, 2012.

¹³ See Response to CHIR No. 3, question 5 and accompanying workpaper, "Intl Spec Serv Calc CHIR3.xls."

and (3) an application for non-public treatment of the unredacted version of the annex to Governors' Decision No. 13-2 and other supporting materials filed under seal.¹⁴

B. Procedural History

On November 14, 2013, the Commission gave notice of the docket, appointed a Public Representative, and provided the public with an opportunity to comment on the Postal Service's proposed changes.¹⁵

On November 19, 2013, Chairman's Information Request No. 1 was issued.¹⁶ It sought clarification on several topics including new products introduced in this proceeding, the IMpb Noncompliance Fee, the new minimum volume requirements for some nonpresort Parcel Select packages, proposed MCS language accompanying the Standard Post price table, the supporting calculations for IPA and ISAL, the attributable cost estimates for Package Intercept Service, and the costs associated with enhancements to competitive Post Office Box Service. *Id.*

In its Response to CHIR No. 1, the Postal Service clarifies that no new products are introduced in this proceeding. Response to CHIR No. 1, question 1. It also clarifies its proposed MCS changes concerning the IMpb Noncompliance Fee and the Standard Post MCS price table. *Id.*, questions 2, 4. Additionally, the Postal Service confirms that the proposed changes set a minimum volume requirement of 50 pieces or 50 pounds per mailing for all nonpresort Parcel Select packages. *Id.*, question 3. The Postal Service also provides additional information concerning the development of a methodology for estimating the attributable costs of Package Intercept Service and workpapers illustrating the costs associated with enhancements to competitive Post

¹⁴ The Postal Service subsequently filed revisions to the redacted tables. See Notice of United States Postal Service of Filing Errata, December 6, 2013 (Errata Notice). The Errata Notice includes a certified statement that the price decreases for IPA and ISAL are in compliance with 39 U.S.C. § 3633(a)(2).

¹⁵ Order No. 1876, Notice and Order Concerning Changes in Rates of General Applicability for Competitive Products, November 14, 2013.

¹⁶ Chairman's Information Request No. 1, November 19, 2013 (CHIR No. 1).

Office Box Service. *Id.*, questions 6, 7. Finally, the Postal Service provides price adjustment calculations for IPA and ISAL.¹⁷

On November 21, 2013, Chairman's Information Request No. 2 was issued.¹⁸ It sought information on a discrepancy in the reported average price increase for Parcel Select and the FY 2014 cost coverage for International Direct Sacks—Airmail M-Bags. *Id.* In response, the Postal Service explains that the reported price increase for Parcel Select in Governors' Decision 13-2 excluded lightweight Parcel Select price categories. Response to CHIR No. 2, question 2. The Postal Service also acknowledges that the forecasted FY 2014 cost coverage for the International Direct Sacks—Airmail M-Bags product is less than 100 percent, but states that the percent change in unit revenue decreased significantly in FY 2013 and raises concerns about the accuracy of the reported data.¹⁹

On November 27, 2013, Chairman's Information Request No. 3 was issued.²⁰ It sought additional information about the changes proposed for Premium Forwarding Service, the discontinuance of Priority Mail Express and Priority Mail Reshipment Services, and financial data for Competitive Ancillary Services. *Id.* It also requested additional clarification concerning the Customs Clearance and Delivery Fee, the size and weight limitations for Outbound Priority Mail International, and the price table for Retail Flat Rate Priority Mail International. *Id.*

¹⁷ Response of the United States Postal Service to Chairman's Information Request No. 1, Question 5, November 25, 2013 (Response to CHIR No. 1, question 5). The Postal Service filed a motion for late acceptance of this response. Motion of the United States Postal Service for Late Acceptance of Response to Chairman's Information Request No. 1, Question 5, November 25, 2013. The motion is granted.

¹⁸ Chairman's Information Request No. 2, November 21, 2013 (CHIR No. 2).

¹⁹ Response of the United States Postal Service to Chairman's Information Request No. 2, Question 1, December 3, 2013 (Response to CHIR No. 2, question 1). The Postal Service filed a motion for late acceptance of this response. Motion of the United States Postal Service for Late Acceptance of Response to Chairman's Information Request No. 2, Question 1, December 3, 2013. The motion is granted.

²⁰ Chairman's Information Request No. 3, November 27, 2013 (CHIR No. 3).

In response, the Postal Service provides additional information about its plans to replace Priority Mail Express and Priority Mail Reshipment Service with Premium Forwarding Service Commercial. Response to CHIR No. 3, question 3. The Postal Service also clarifies questions concerning the proposed changes to Premium Forwarding Service and provides financial data for Competitive Ancillary Services.²¹ It also provides additional information regarding the calculation of the price change of the Customs Clearance and Delivery Fee, the size and weight limitations for Outbound Priority Mail International, and the price table for Retail Flat Rate Priority Mail International. Response to CHIR No. 3, questions 5, 6.

On December 5, 2013, Chairman's Information Request No. 4 was issued.²² It requested information regarding Priority Mail Express and Priority Mail Reshipment Service enrollment fees and on how the Postal Service plans to report costs, revenues, and volumes/transactions for Premium Forwarding Service Commercial. *Id.* In response, the Postal Service clarifies that there is no enrollment fee for Priority Mail Express and Priority Mail Reshipment Service and provides additional information on its plans to report costs, revenues, and volume/transactions for Premium Forwarding Service Commercial.²³

²¹ *Id.*, question 1; Responses of the United States Postal Service to Chairman's Information Request No. 3, Questions 2 and 4, December 4, 2013. The Postal Service filed a motion for late acceptance of this response. Motion of the United States Postal Service for Late Acceptance of Responses to Chairman's Information Request No. 3, Questions 2 and 4, December 4, 2013. The motion is granted.

²² Chairman's Information Request No. 4, December 5, 2013 (CHIR No. 4).

²³ Responses of the United States Postal Service to Chairman's Information Request No. 4, December 9, 2013.

III. COMMENTS

The Public Representative filed comments on November 26, 2013.²⁴ No other interested person submitted comments.

The Public Representative states that it appears that the proposed changes in rates are sufficient for competitive products to cover their attributable costs and to generate a sufficient contribution to institutional costs. *Id.* at 1, 3. She also raises three concerns regarding the proposed rate changes. First, the Public Representative is concerned that the Postal Service's failure to provide formulas or explain the methodologies made it difficult to evaluate the accuracy of the Postal Service's calculations. *Id.* at 2. Second, she questions the Postal Service's failure to provide an explanation for aligning Standard Post prices with Retail Priority Mail prices in Zones 1-4. *Id.* She believes it would be beneficial for the Commission and general public to have additional information to allow for further evaluation of the economic and policy rationales for the change. *Id.* Finally, the Public Representative notes that the application of the Postal Service's updated costing methodology filed in Docket No. RM2014-1 (Proposal Seven)²⁵ would have allowed for a more accurate assessment of the attributable costs for enhancements to competitive Post Office Box service during this proceeding. Nevertheless, she recognizes that future dockets will apply the new methodology. *Id.* at 2-3.

IV. COMMISSION ANALYSIS

The Commission has reviewed the Notice, including materials filed under seal, the CHIR responses, and the comments. Planned price changes for competitive

²⁴ Public Representative Comments on the United States Postal Service's Notice of Changes in Rates of General Applicability for Competitive Products Established in Governors' Decision No. 13-2, November 26, 2013 (PR Comments).

²⁵ See Docket No. RM2014-1, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Six through Eight), November 8, 2013 (Docket No. RM2014-1 Petition). Proposal Seven concerns a change in the development of attributable costs for Competitive Post Office Box Service enhancements.

products are reviewed pursuant to 39 U.S.C. § 3633(a) and Commission regulations under 39 C.F.R. part 3015. In brief, these statutory and regulatory provisions require each competitive product to cover its attributable costs (39 U.S.C. § 3633(a)(2)), prohibit the subsidization of competitive products by market dominant products (39 U.S.C. § 3633(a)(1)), and require that competitive products collectively make an appropriate contribution to the recovery of the Postal Service's total institutional costs (39 U.S.C. § 3633(a)(3)).

The Commission finds that, with the exception of Airmail M-Bags, the planned prices for each competitive product are expected to cover their attributable costs. In addition, competitive products as a whole are expected to generate more than enough contribution to satisfy the 5.5 percent minimum contribution requirement.²⁶ Consequently, market dominant products are not cross-subsidizing competitive products.

Several issues arose during the Commission's review of the instant competitive price adjustment: (1) the projected cost coverage for Airmail M-Bags; (2) Standard Post pricing for Zones 1-4; (3) the costing methodology for Package Intercept Service; (4) the costing methodology for Post Office Box Service; (5) the presentation of the financial workpapers accompanying the Postal Service's Notice; and (6) the proposed MCS changes. Each issue is addressed below.

Airmail M-Bags cost coverage. The Postal Service's response to an information request suggests that the forecasted cost coverage may be anomalous because Airmail M-Bag revenues covered costs in FY 2012 and previous years. Response to CHIR No. 2, question 1. In connection with this possibility, the Postal Service observes that unit revenue "decreased substantially" in FY 2013 compared to FY 2012. *Id.* This lends some weight to the possibility that the anomaly may be the consequence of statistical problems or forecasting errors, especially when coupled with the Commission's finding

²⁶ See Notice at Redacted Annex Jan – Public.xls Competitive Jan FY14; see also 39 C.F.R. § 3015.7(c).

that the average weight per piece did not decrease by a similar magnitude during the same period.²⁷ The Commission also observes that pounds decreased continuously by nearly two-thirds, and pieces by more than half, between FY 2010 to FY 2013.

The Postal Service states that it will continue to review the financial performance of the Airmail M-Bags product and, if the cost coverage proves anomalous, remedy it in the next rate cycle. Response to CHIR No. 2, question 1. In the interim, the Postal Service suggests that the Commission provisionally approve the proposed 2014 prices for Airmail M-Bags given the possibility of an anomaly; the planned above-CPI price increase; the minor amount of revenue involved; and the unlikelihood of a demonstrable impact on the overall cost coverage of competitive products. *Id.*

The Commission finds that the proposed rates for the Airmail M-Bag product do not satisfy section 3633(a)(2). However, the product's history of covering costs and the decline in revenue, pieces, and pounds, lend support to the Postal Service's suggestion that the data may be anomalous. The Commission allows the planned prices to take effect, but directs the Postal Service to provide, no later than May 26, 2014, a report addressing statistical issues that might cause the decrease in unit revenues for this product; the forecasting model; and the methodology for allocating pounds to the Country Price Groups in developing prices. The report also should provide any useful additional context for the declining trends in revenues, pieces, and pounds for Airmail M-Bags, including any discernible changes in types of users and typical contents, and the effect of exogenous changes (such as electronic diversion).

Standard Post prices for Zones 1-4. The Public Representative asserts that the Postal Service fails to adequately explain the alignment of Standard Post prices for Zones 1-4 with Retail Priority Mail prices for the same zones. PR Comments at 2.

²⁷ See Letter to Hon. Shoshana M. Grove, Secretary, Postal Regulatory Commission, from Daniel J. Foucheaux, Jr., Chief Counsel, Pricing and Product Support, United States Postal Service, November 27, 2013, providing, pursuant to the Commission's periodic reporting rules, the Revenue, Pieces and Weight (RPW) report by rate category and special service for Quarters 1-4 of FY 2013, and a summary annual RPW report for FY 2013. See Excel file Fy2013_RPWsummaryreport_restricted.xls, worksheet tab Fiscal Year 2013 Restricted.

Historically, the prices for these categories have tended to converge, particularly at lower weights and shorter distances.²⁸ In any event, the prices satisfy the requirements of 39 U.S.C. § 3633, and the decision to align the Zone 1-4 rates for Standard Post with those of Retail Priority Mail is within the operational and pricing discretion of the Postal Service.

Package Intercept Service costing methodology. Package Intercept Service is one of two services that comprise Competitive Ancillary Services. The service permits a customer to request that the Postal Service intercept the customer's mail at the destination delivery unit and return the mail, hold it for pick-up, or redirect it to an alternate domestic address. The intercepted packages are shipped using Priority Mail. In the FY 2012 Annual Compliance Determination (ACD), the Commission expressed concern that the Postal Service's accounting systems did not identify costs for Package Intercept Service and revenues for this service were reported with the market dominant Special Services class.²⁹ It accordingly directed the Postal Service to ensure that its accounting systems capture costs for Package Intercept Service, to file a methodology for estimating attributable costs in a rulemaking proceeding, and to report revenues, volumes, and attributable costs with the Competitive Ancillary Services product. *Id.*

In this proceeding, the Postal Service provides the Commission with sufficient cost, revenue, and volume data for Package Intercept Service and Adult Signature Service that it can determine that the Competitive Ancillary Services product covers its costs. Response to CHIR No. 3, question 4. With respect to costing methodology, the Postal Service states that because the volume for Package Intercept Service is low and sporadic, it is too difficult and expensive to perform on-site special studies. Response to CHIR No. 1, question 6. It states that the methodology it currently uses was developed by assuming an amount of time to perform the activities required. *Id.*

²⁸ Docket No. MC2012-13, Order No. 1411, Order Conditionally Granting Request to Transfer Parcel Post to the Competitive Product List, July 19, 2012, at 11.

²⁹ FY 2012 ACD at 163.

However, the Postal Service indicates that it is in the process of using technology to significantly reduce manual handling for Package Intercept requests and that it can develop a more refined cost model once the new procedures have been implemented. *Id.*

Post Office Box Service costing methodology. In the FY 2012 ACD, the Commission determined that the methodology used to develop attributable costs for enhanced services for competitive Post Office Box Service requires review.³⁰ The Commission accordingly directed the Postal Service to develop a costing methodology that adequately measures the attributable costs of the enhanced services and to file the proposed methodology in a rulemaking proceeding. *Id.* In this proceeding, the Postal Service continues to report costs associated with the enhancements as it did in the FY 2012 Annual Compliance Report (ACR). Response to CHIR No. 1, question 7. However, the Postal Service subsequently proposed to address these issues in a rulemaking proceeding.³¹ That proceeding is underway.

The presentation of the financial workpapers. The Public Representative comments on the lack of detail and transparency in the Postal Service's financial workpapers. PR Comments at 2. She states that the financial workpapers lack the formulas or methodological descriptions necessary to confirm the Postal Service's calculations. *Id.* The Public Representative's concerns have merit. In future proceedings, the Postal Service should properly source and link its financial workpapers depicting the projected financial results associated with the price changes.³²

Classification changes. The Postal Service's draft MCS language regarding the IMpb Noncompliance Fee and the new footnote to the Standard Post price table are unclear.

³⁰ FY 2012 ACD at 163.

³¹ Docket No. RM2014-1 Petition; *supra*.

³² See, e.g., Folder Supp. Info-Finance_CP2014-5, sub-folder Non Public Contribution.

In response to CHIR No. 1, question 2, the Postal Service explains that the IMpb Noncompliance Fee applies to competitive product pieces entered at commercial prices that fail to comply with IMpb standards.³³ In response to CHIR No. 1, question 4, the Postal Service clarifies that Zone 1-4 Standard Post prices for parcels weighing up to 70 pounds are applicable only to parcels containing hazardous or other material not permitted to travel by air transportation. In response to CHIR No. 3, question 6, the Postal Service identifies conforming changes in MCS sections 2315.2 and 2315.7. The MCS language will be clarified accordingly.

In conclusion, as set forth in this Order, the planned price changes may take effect as scheduled. Subject to the changes discussed in this Order, the proposed classification changes will be incorporated into the MCS.³⁴

V. ORDERING PARAGRAPHS

It is ordered:

1. The planned rates can take effect as scheduled.
2. The Commission directs the Postal Service to provide, no later than May 26, 2014, the report concerning the International Direct Sacks-Airmail M-Bags product as discussed in the body of this Order.

³³ See Response to CHIR No. 1, question 2; see *also* 78 Fed. Reg. 69553, 69555 (describing the Postal Service's changes to the Domestic Mail Manual concerning the implementation of the IMpb Noncompliance Fee).

³⁴ As indicated in previous orders, the language suggested by the Postal Service in its filing is illustrative and subject to adjustment in the MCS that the Commission ultimately adopts.

3. The Postal Service's proposed changes to the Mail Classification Schedule may be implemented with the changes described in the body of this Order. The appropriate language will be added to the Mail Classification Schedule.

By the Commission.

Shoshana M. Grove
Secretary